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Idaho Military Division

Management Report on Financial Procedures

Issued: November 3, 2004
Fiscal Year: 2001, 2002, and 2003



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO MILITARY DIVISION

PURPOSE AND SCOPE. We have completed certain financial audit procedures on the Idaho Military Division's financial activities that occurred during the fiscal years ended June 30, 2001, 2002, and 2003. These procedures, together with procedures performed at other State agencies, allow us to express our opinion on the statewide basic financial statements prepared by the State Controller's Office. Since a major federal program was present, appropriate procedures and required tests were made in order to issue the federally required Single Audit.

CONCLUSION. There are two findings and recommendations included in this report, that will, if implemented, improve efficiency, effectiveness, compliance, and controls of the Division. Although we discussed these issues for improvement, we conclude that the financial operations of the Division meet accepted standards and that the Division substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

FINDINGS AND RECOMMENDATIONS. This report includes two findings and recommendations, as discussed below.

Finding #1. Some accounting procedures do not ensure that controls are in place and that financial information is accurate.

The Division needs to improve a few accounting procedures. For example, the Division (1) failed to obtain about \$200,000 in federal funds because it did not modify agreements with the federal government; (2) did not always require all employees to sign their time sheets (which could allow employees to dispute time records); and (3) did not always comply with travel policies and regulations. Also, the Division did not provide accurate information (used to compile statewide financial reports) to the State Controller, and incorrectly recorded revenue as negative expenditures, which understates revenues and expenditures and can be used to circumvent appropriation laws.

We recommend that the Division establish controls and procedures for each of these issues to ensure accurate accounting, compliance with policies and regulations, and protection of assets.

Finding #2. The Division's information technology (IT) organizational structure does not allow for efficient performance and timely management information.

A well organized IT structure helps ensure stability and continuity of computer applications and efficient operations. The Division's IT organizational structure should be improved. Currently, some IT staff are directed and their work monitored by program personnel. As a result, it is difficult for the Division's chief technology officer to develop policies and procedures and to direct and monitor IT operations to ensure that management directives are followed.

We recommend that the Division review its organization structure and consider having its chief technology officer direct and monitor the activities of its IT staff. Furthermore, the Division should review current workloads and staffing needs of its IT section. **We also recommend** that the Division establish formal written policies to identify risk areas, prioritize projects, modify or correct current applications, document program applications developed by members of its staff, and ensure that computer operations are secure.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior report included three findings and recommendations.

PRIOR FINDING #1. Rotary fund reconciliations were not completed in a timely manner, and advances were made to non-State employees, resulting in \$6,800 in unreimbursed expenditures. Some advances were more than two years old and had not been reimbursed because some non-State employees could not be located or it was determined that there was little chance of collecting outstanding funds. Also, rotary reconciliations had not been prepared and submitted to the State Controller's Office in a timely manner, and the rotary amount of \$40,000 was too high for the limited amount of activity that was processed through the fund.

The Division is now following State rotary fund policy and making monthly reconciliations, collecting outstanding advances within one month of the initial advance, and has established a formal written policy prohibiting advances to non-State employees. In addition, the Division has reduced its authorized rotary balance to \$20,000. **Status: CLOSED**

PRIOR FINDING #2. Armory checking accounts lacked internal controls and, as a result, \$2,600 was misappropriated. The Division advanced \$350,000 annually to 25 armory bank accounts to pay for janitorial services, utilities, security, and other miscellaneous expenses. In the fiscal year 1998 audit report, we recommended improvements in internal controls, including the possibility of closing the bank accounts and processing transactions through the State's accounting system. Although the armories did make some improvements after the fiscal year 1998 audit, a misappropriation of \$2,600 still occurred at two armories. Additional funds may have been misappropriated, but due to the poor record keeping, an exact amount could not be determined. In the fiscal year 2000 report (the prior report), we recommended that the Division close the bank accounts and process revenues and expenditures through the State's accounting system.

The Division has closed the bank accounts and now processes armory revenues and expenditures through the State's accounting system. **Status: CLOSED.**

PRIOR FINDING #3. Accounting policies and documentation controls would reduce the possibility of errors and improve efficiency. The custody and recording of receipts and writing off accounts receivables in the Bureau of Hazardous Materials were not adequately segregated, which increased the chance of errors or misappropriated funds. Also, the Division issued warrants to itself when it transferred funds among its internal operations. Issuing warrants is inefficient and more expensive than simply transferring the funds.

The Division now segregates receipting duties and completes an independent review of all receivable writeoffs. Also, the Division now transfers funds among its internal operations instead of issuing warrants. **Status: CLOSED**

AGENCY RESPONSE. The Division has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The procedures completed and described above help us express our opinion on the fairness of presentation of the *Statewide Comprehensive Annual Financial Report (CAFR)*. Although no opinion is given on the financial data presented in this report, one is given on all State funds in the *CAFR*, including the financial data presented in the complete report.

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Military Division and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by the Division's Adjutant General, Major General John Kane, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

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Report IC19003/SA19003

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.
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